



STATE OF MICHIGAN

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October 18, 2007

To: MSHDA Board Members

From: Michael R. DeVos MSHDA Executive Director

Subject: 2008-2009 Qualified Allocation Plan (QAP)

The Qualified Allocation Plan is the document used to control the allocation of the Low Income Housing Tax Credit (LIHTC). This resource is by far the single largest subsidy administered by MSHDA, and the primary subsidy used to create or preserve affordable housing for the citizens of Michigan. Every state is given an allocation of LIHTC from the US Treasury each year. The amount given to the state, by the Internal Revenue Service, is tied to the population of the state (roughly \$1.75 per citizen plus an inflator). In Michigan, we will receive an allocation of approximately \$19,500,000 in 2008. In turn, this amount is then divided up to fund affordable housing projects across the state. There are federal regulations with which we must comply when we decide how the tax credits are to be allocated to projects, primarily Section 42 of the Internal Revenue Code. The IRS also issues additional guidance in an ongoing fashion, principally in the form of Revenue Rulings, which inform staff about technical issues to comply with in their administration of this resource. Each state designates one agency to administer the Low Income Housing Tax Credit; MSHDA is the state agency charged with administering the LIHTC for Michigan.

When MSHDA gives a project sponsor an allocation of tax credits for a project, they sell these credits to investors, principally banks, insurance companies, and secondary market intermediaries such as FNMA. The entity which packages and sells the credits is called a syndicator. When a tax credit allocation is made, the face amount of the credit is available to the sponsor of the project for 10 years, and they in turn sell this 10 year tax credit to investors. So, for example, if we give an allocation of \$500,000 to Project X, they actually receive \$500,000 of tax credits per year for 10 years so long as they comply with the applicable regulations. Investors pay a slight discount for these credits. In today's market, an allocation of \$500,000 to Project X would net approximately \$4,500,000 of equity which can be used to build or rehabilitate an affordable housing project in Michigan. The balance of the costs of the project is paid for typically with bank loans or additional subsidy, such as Federal HOME funds.

We project the total dollar volume for projects receiving competitive tax credits under MSHDA's 2008-2009 QAP will be in the range of \$450 to \$500 million. The majority of these funds will be used for rehabilitation or new construction of affordable apartments in the communities where these projects are sited. The LIHTC projects have a significant economic development impact in these communities.

Unfortunately, the demand for the Low Income Housing Tax Credit in Michigan is far greater than our supply. In our last funding round which used the 2005-2006 QAP, MSHDA received 118 applications, while we were only able to fund 24 projects. The downside of this competitive process is an inability to fund many worthy projects. The upside is that since the demand so greatly outweighs supply, we are able to achieve much public good with this resource. The IRS gives states a wide berth to establish a QAP which achieves public policy goals so long as we comply with the mandates in IRC 42.



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In exchange for an allocation of tax credits, an awardee makes certain commitments, such as the maximum income level of a tenant who can rent an apartment, what rent can be charged, and how long the apartments will remain affordable. There are minimum federal standards as to what rents can be charged and how long apartments must comply with standards, but most states try to create a set of requirements and incentives for sponsors that help the affordable housing community achieve their public policy goals since this is the largest housing subsidy across the country. Typical goals would include the creation of supportive housing, preservation of federally assisted housing, creation of housing in targeted areas, payment of health care benefits to workers on the jobs, inclusion of "green standards," etc..

MSHDA staff have not looked at aligning the tax credits with MSHDA policy objectives during my three year tenure. Staff estimate it has been more than 10 years since the last significant revision of the QAP. The MSHDA board approved the 2005-2006 QAP in 2004. We also used the 2005-2006 QAP to allocate our 2007 tax credits. We have now funded approximately \$700,000,000 in housing projects using the old QAP.

When considering a revision of the QAP, MSHDA staff were concerned that the 2005-2006 QAP did not provide ample public or staff input and did not want to repeat that process. The staff worked to create a more inclusive process which included a series of forums over the last 8 months to provide significant opportunity for input from a cross section of staff and extensive opportunities for public input. Additionally, staff reached out to partners informally, and encouraged written comments as well. To date, we have received over 150 written comments on the proposed 2008-2009 QAP.

Following the third public forum, staff drafted and released an initial draft 2008-2009 QAP. It was the intent of staff to review the input from four additional public forums to follow the release of the draft and then to create a final draft QAP for the Board's review in October which balanced MSHDA's public policy objectives with the many perspectives from our constituents.

We have proposed the October 24 MSHDA Board meeting as an eighth public forum so that you may hear from a wide range of constituents who are likely to be representative of the voices staff heard at the other seven public forums.

The initial draft 2008-2009 QAP, released to the public in August 2007, was organized around five objectives:

- 1. Funding housing projects to help address poverty-related issues in Michigan's most Distressed Urban areas;**
- 2. Creating Vibrant Communities by funding CDCs and New Economy projects which implement community revitalization plans;**
- 3. Funding the Campaign to End Homelessness in Michigan;**
- 4. Funding for our Rural and Small Communities; and**
- 5. Ensuring that all members of our society, including persons with special needs, have access to affordable housing.**

The introductory section of the draft 2008-2009 QAP outlines in detail these policy objectives we considered when drafting the QAP.

Since the release of the initial draft 2008-2009 QAP, staff have continued to host public input forums and to receive additional feedback both publicly and privately. It has been our intention to present a final draft of the 2008-2009 QAP for the MSHDA Board members to consider. The final draft QAP is attached to this memo. Also attached is a brief history of the public input process used in soliciting input during the creation of the 2008-2009 QAP, a slightly expanded policy rationale staff considered, and a document explaining issues related to supportive housing since there has been much public input on this holdback.

In our final draft, we have proposed a series of changes to the initial draft 2008-2009 QAP released in August. (There is also attached a separate document which details all proposed changes along with the individuals or organizations who proposed the recommended change.)

Below are highlights of the changes we have proposed for the final draft 2008-2009 QAP:

1. We propose scheduling a second round of tax credits in December 2007 using the 2005-2006 QAP and committing 25% of the state's 2008 allocation amount (roughly \$60,000,000 in projects);
2. Eliminating the Prevailing Wage requirement from the 2008-2009 QAP and establishment of a workgroup to look at the issue of use of local labor in project development;
3. Eliminating the tying of issuance of an 8609 to the use of prevailing wage and local labor requirements;
4. Preservation projects to be given high priority within holdbacks as outlined in the Scoring Summary released Oct 10, 2007;
5. Additional resources for Preservation by creating a holdback of 10% of the total state allocation for Preservation. This was done by reducing the Supportive Housing holdback to 15% and producing Affordable Assisted Living within holdbacks, and eliminating the Affordable Assisted Living holdback.
6. Reducing the number of investor letters required by sponsors from 3 to 2;
7. Increasing the number of applications a sponsor can submit from 2 to 3;
8. Commitment of Project-Based Housing Choice Vouchers for units dedicated to Supportive Housing to increase project revenue;
9. Commitment of capital subsidy of \$4,000,000 for Supportive Housing;
10. Two rounds of tax credits annually with the remaining 75% of the 2008 state allocation to be made available in spring 2008 under the 2008-2009 QAP; and
11. Creation of a MSHDA Tax Credit Division.

Following are the holdbacks staff recommend for inclusion in the final draft of the 2008-2009 QAP:

- A. 50% to Detroit, Hamtramck, Highland Park (DHHP)
- B. 15% to Poverty Distressed Cities (PDC)
- C. 10% to Small Communities and Rural Housing
- D. 15% to Supportive Housing/Housing for Persons with Special Needs
- E. 10% for Preservation Projects

Staff is recommending this Final Draft 2008-2009 QAP for your review. We will continue our dialogue about the QAP with you and there will be an opportunity to hear a significant level of public input, and a full and open discussion on October 24 during the Board meeting.

There are many voices in our statewide community, and unfortunately there is simply insufficient tax credit funding for all of the housing needs and the many laudable policy goals articulated during the public input process. We have crafted a final draft document which we feel is fair and equitable to various constituent groups who testified, and is viewed by staff as a middle path, with compromises to respond to the voices we have heard.

Following the review and discussion of the Final Draft 2008-2009 QAP, staff looks forward to direction from the MSHDA Board on next steps.

While the staff is presenting this final draft, for Board review and discussion, and looks forward to direction from the MSHDA Board on next steps, staff recommends against holding a new or alternate public input process.